

DOCKET SECTION

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

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POSTAL RATE AND FEE CHANGES, 1997

**RESPONSES OF MAGAZINE PUBLISHERS OF AMERICA WITNESS
COHEN TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
(USPS/MPA-T2-15-19)**

(February 9, 1998)

Pursuant to the Commission's Rules of Practice, Magazine Publishers of America hereby submits the attached responses to interrogatories propounded by USPS to witness Cohen. (USPS/MPA-T2-15-19)

Respectfully submitted,



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**Magazine Publishers of America Witness Rita Cohen
Responses to Interrogatories of USPS**

USPS/MPA-T2-15. Please refer to your testimony at page 28-29 and to Tr. 17/81438144. Please confirm that you have not calculated the variance of witness Degen's distribution key entries (the ratio of IOCS costs for a particular subclass in a distribution key to total IOCS costs for the distribution key) or of distributed volume variable costs. If you do not confirm, please provide complete results of your analysis, along with complete documentation of statistical formulas and assumptions.

Response:

Confirmed. I would note that the coefficients of variation that I examined represent the numerator of the distribution key entries for most distribution keys. I would further note that for 70 percent of the numerators, the coefficients of variation are so large that there is no basis to suggest that the numerators are not zero. If the numerators are zero, the ratios would also be zero.

If there is positive correlation between the numerator and denominator, the variance of the ratio could be smaller than the variance of either the numerator or denominator. However, that does not suggest that the numerator is statistically different from zero.

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USPS/MPA-T2-16. Please refer to your testimony at page 29. What fraction of mixed mail costs is distributed using five or fewer tallies in witness Degen's methodology? Please provide any intermediate calculations in electronic spreadsheet format.

Response:

Six percent. The requested spreadsheet will be filed as MPA-LR-8, spreadsheet usps16.xls. I would note, however, that a more important measure of the statistical validity of witness Degen's distribution is the coefficient of variation for the numerator of the distribution keys (see interrogatory USPS/MPA-T2-15). As I stated in response to USPS/MPA-T2-11(c), a quarter of mixed-item and identified-container costs are distributed using distributing costs with coefficients of variation of at least 50 percent.

**Magazine Publishers of America Witness Rita Cohen
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USPS/MPA-T2-17. Please refer to your testimony at pages 31.

(a) Is it your testimony that "not handling costs" are not causally related to mail handlings in the same cost pool? If not, please explain fully.

(b) Is it your testimony that witness Degen's not-handling distribution is incorrect primarily because you believe that "not handling costs" are not causally related to mail handlings in the same cost pool? If not, please explain fully.

(c) Suppose it is correct to assume that "not handling costs" are causally related to mail handlings in the same cost pool. Would it then be appropriate to distribute the "not handling costs" within the same cost pool? Please explain any negative response.

Response:

(a) It is my testimony that for many not-handling tallies we do not currently have enough information to determine causality. Not-handling tallies may be causally related to direct tallies in the same cost pool, they may be causally related to direct tallies in a different cost pool, they may be causally related to direct tallies in multiple cost pools, or they may not be causally related to direct tallies in any cost pool.

(b) It is my testimony that witness Degen's not-handling distribution methodology is fatally flawed for the following reasons: (1) witness Degen assumed that all not-handling tallies are causally related to direct tallies in the same cost pool and made no attempt to obtain data to verify his assumption; (2) witness Degen's own data provide clear evidence that his assumption is unreasonable. Witness Degen surely knows that productivity is not measured at allied operations and that employees are frequently assigned to allied operations while waiting for productive work at other operations. Given that not-handling tallies represent over 50 percent of all tallies at allied and other operations, witness Degen should have reconsidered the validity of his assumption, in my opinion.

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(c) I don't believe that such a determination should be made on the basis of an assumption alone. I believe the Postal Service should determine causality before deciding how to distribute costs.

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USPS/MPA-T2-18. Please refer to your testimony at page 31.

(a) Please confirm that you and witness Stralberg propose to distribute most not-handling costs "by CAG and basic function." If you do not confirm, please explain fully.

(b) Please confirm that your distribution methodology assumes that most "not-handling costs" are caused by mail handlings in the same CAG and basic function. If you do not confirm, please explain the theory of cost causality that underlies your proposed distribution methodology.

(c) Please provide the quantitative analysis of volume variability and/or cost causality, including all statistical tests that demonstrate the causal relationship between your cost driver(s) and "not handling costs," upon which your proposed "not handling cost" distribution is based.

(d) If your answer to part (a) indicates that you have performed no quantitative analysis of volume variability or cost causality, please confirm that your proposed "not handling cost" distribution is based on untested assumptions regarding patterns of cost causality.

Response:

(a) Confirmed.

(b) Not confirmed. As I explained in my testimony, the fact that not-handling costs have increased so dramatically in the past 10 years has led witness Stralberg and I to conclude that a significant portion of these costs are "caused" by inefficiency related to automation. This conclusion would suggest some not-handling costs should be treated as institutional costs as I have recommended to the Commission. Lacking that solution, my proposal would avoid penalizing the least automated mail for not-handling costs it did not cause.

My proposal avoids assumptions as to why an employee is clocked in to a particular

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operation and avoids assigning not-handling costs at allied operations, which are most likely caused by Postal Service management assigning excess labor there, only to the subclasses present at allied operations. Postal Service managers do not have a similar incentive to park excess labor in specific CAGs or basic functions so my proposed distribution does not introduce a bias against mail handled in manual operations.

(c) As I stated earlier, I do not hypothesize that not-handling costs are necessarily caused by any particular subclass of mail. Lacking a demonstrated "cost driver", I have recommended that the Commission treat a portion of not-handling costs as institutional costs in this proceeding. Lacking a demonstrated cost driver, I also recommend that the Commission avoid untested assumptions for which there is countervailing evidence.

(d) I take the reference to be to part (c) not part (a). My proposal is to avoid untested assumptions to the maximum extent possible. This can be done by avoiding attributing costs when causation has not been proved and by avoiding assumptions for which there is countervailing evidence.

**Magazine Publishers of America Witness Rita Cohen
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USPS/MPA-T2-19. Please refer to your testimony at page 31, lines 16-17. Please provide a precise definition of "not-handling costs for which we have no information as to causation."

Response:

In fact, most not-handling costs are costs for which we have no information as to causation. This category has grown at an alarming pace over the past 10 years, leading the Commission and mailers to increasingly press the Postal Service to study the causality of these costs. As mentioned in my response to interrogatory UPS/MPA-T2-18, my proposal is to treat a portion of these costs as institutional and to distribute the remaining costs more broadly.

As I discuss on page 32 of my testimony, there is a subset of not-handling costs for which there is additional information that can help improve the distribution to subclasses. Witness Stralberg and I recommend that not handling tallies that relate to window service or administrative functions be distributed on the basis of customary distribution keys for individual activities in those cost components; that not-handling tallies with shape information be distributed in proportion to direct tallies of that shape; that not-handling tallies in special delivery, registry, and Express Mail units be distributed to those services and that class; and that not-handling tallies for specific activities like central mail markup be distributed on direct mail tallies for the same activity.

DECLARATION


I, Rita Cohen, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Rita D. Cohen

Dated: Sept 9, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.



James R. Cregan

Washington, D.C.
February 9, 1998